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An Ounce of Prevention

1987-88 Edition
The ninth annual survey of security and loss prevention in the retail industry

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The IMRA is an association representing more than 750 companies in the mass merchandising industry. The association keeps its members current on retail and business matters through publication of a monthly newsletter and sponsorship of meetings, seminars, and roundtables.

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- Bi-monthly newsletter on a broad spectrum of current retail issues

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From the Editors

Controlling shrinkage is one of the retail industry's most complex and challenging jobs. It is a responsibility that involves virtually every operational and management department in the company; it is a task that involves every employee on the payroll. It is also an issue that involves anyone who steps foot in the store.

Indeed, every member of society pays directly or indirectly for the overwhelming amount of money that is lost every year to shrinkage in the retail industry.

In 1986 alone, retailers responding to our survey lost approximately $1.5 billion to shrinkage, or 1.7% of sales. Although that reflects a slight decrease, as a percentage of sales from the previous year, it is still a staggering figure, and it is the reason the statistics you will find inside this year's *An Ounce of Prevention* demand attention.

While no one can afford to accrue these losses year after year, retailers differ in the amounts of money they are willing to dedicate to loss prevention programs and personnel.

In fact, as a percentage of sales, security-related expenditures were down in 1986 from the previous year—from 1985's .43% of sales to .39%, according to the report. Nevertheless, the participating retailers spent a total of $260 million in 1986, with department store operators well in the lead.

While strategies vary and technologies gain in sophistication, just over half the retailers polled said they focused their efforts solely on prevention and apprehension.

However, another large portion of the group—44%—said they supported their prevention and apprehension strategies with risk management and internal audit programs, two loss-prevention strategies that made their debut as special sections in this year's security and loss-prevention report.

Those retailers who have created loss-prevention incentive programs for their employees generally have found that their efforts pay off. While 67% of the retailers in this year's study reported having incentive programs, of that group, nine out of ten rated these programs as effective.

We hope the numbers in this report will serve as a tool for better understanding the issues involved in loss prevention and as a guide to help develop viable solutions.

While the body of this report is devoted to a statistical analysis of the problem of security and loss prevention, it is only a numerical reflection of very diverse day-to-day retail experiences.

To give these numbers more tangible meaning, we have included a series of interviews on loss-prevention strategies with two prominent retailers: Paul Talbott, Director of Security, of Kay Jewelers, Inc., and James Varhol, Vice President, Loss Prevention, of Jamesway.

The editors would like to take this opportunity to thank them for their participation and many useful insights.

We hope the survey materials—text and charts—will shed some interesting perspectives on the issues of shrinkage management. We welcome any questions or comments you may have.

Stephanie M. Shern
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The Ninth Annual Survey of Security and Loss Prevention Highlights

I. The Participants
This year's results were based on responses from 115 retail companies, with 1986 aggregate sales topping $125 billion. Together, they operated more than 38,000 stores across the country. *(Page 4)*

II. Shrinkage Results
While average shrinkage levels, as a percentage of sales, were down approximately 6% in 1986 from 1985 at the companies included in the study, these retailers still reported total losses of over $1.5 billion. *(Page 6)*

III. Loss-Prevention Expenditures
An average of .39% of sales was spent on security and loss prevention in 1986, translating to approximately $260 million. Department stores lead in shrinkage expenditures, devoting .50% of sales, compared to .36% for both mass merchants and specialty store retailers. *(Page 8)*

IV. Loss-Prevention Strategies
Retailers from the various market segments generally approached shrinkage with a similar mindset: more than half focused their strategies on prevention and apprehension. While a high percentage—73%—had written ethics codes, the study showed a low number of sales associates were aware of them. *(Page 10)*

V. Incentive Programs
Employee incentive programs paid off, the study revealed. Of the retailers who have instituted incentives, nine out of ten reported positive effects on shrinkage reduction. Most of the respondents used a combination of monetary and recognition rewards. *(Page 12)*

VI. Risk Management
Featuring the first analysis of risk management in the survey's history, 87% of the retailers polled had programs in this area—defined as efforts to reduce liability for losses associated with insurance claims. In fact, 74% have employees dedicated to these programs. *(Page 14)*

VII. Internal Audit
Of the survey population, 84% reported having audit personnel dedicated to loss prevention. More than 60% of this group rated these staffs as very effective. *(Page 15)*

VIII. Food Retailers
This year's food retailers encompassed more than 1,800 store locations, with aggregate 1986 sales of $22 billion. *(Page 16)*

Executive Interviews
1. Paul Talbott, Director of Security, Kay Jewelers, Inc., talks about his chain's successful efforts to defeat the "three-minute burglar." *(Page 19)*

2. James Varhol, Vice President, Loss Prevention for Jamesway Corp., discusses loss-prevention strategies for a regional discount store chain. *(Page 22)*

Scope and Method of Study

How can the retail industry find better ways to effectively deal with security and loss-prevention problems?

By evaluating the programs they currently use, retailers can develop new strategies that work. In its ninth survey on security and loss-prevention Arthur Young, under the sponsorship of the International Mass Retail Association, explores the types of programs in use and provides, once again, the shrinkage statistics that serve as a reference to the retail industry.

The study encompasses the following types of retail establishments:

- **Mass Merchants**
  Discount, general-merchandise, drug, and variety chains with multiple departments, central checkout and limited selling staff.
- **Department Stores**
  Multidepartmental retailers offering departmental checkout with highly visible selling service. This category includes specialty stores with the principal characteristics of department stores.
- **Specialty Stores**
  Few departments, central checkout, generally with 7,500 square feet or less of selling space.

The information for this survey was gathered in summer, 1987, with a written questionnaire. It is generally based on fiscal 1986 data.

Participation was solicited from the International Mass Retail Association membership and from a diversified sample of retail companies.

In total, 115 companies responded. Every response was reviewed for completeness and consistency to ensure accurate processing and appropriate use of information.

Where multiple responses were permitted, the tables do not add up to 100%.

Wherever the term *stores* is used in this report, it refers to companies, except where it clearly designates specific numbers of stores. Reflecting this year's data, high- and low-shrinkage were defined as follows for each retail segment:

- For mass merchants and specialty stores:
  low-shrinkage = 1.0% of sales or less;
  high-shrinkage = 2.0% of sales or more.
- For department stores:
  low-shrinkage = 1.5% of sales or less;
  high-shrinkage = 2.5% of sales or more.

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Kay Jewelers
Jamesway

I. The Participants

As a group, the 115 retail companies participating in the 1987 survey operated more than 38,000 locations in 1986, with total sales exceeding $125.8 billion.

Of the respondents, 48 were mass merchants, with nearly 18,000 store locations and aggregate 1986 sales hovering near $80 billion. Thirty-two department store chains also participated, reflecting 8,315 locations and total 1986 sales of $37.2 billion. In addition, 35 specialty store retailers took part in the survey, totalling 12,368 locations with $8.8 billion in sales. *(See Table 1)*

Sales Breakdown

Fifty of the respondents (43%) posted 1986 sales in the $100 to $499 million category. Those with sales over $500 million, 37 of the participants—25 of whom were mass merchants—formed the second largest group in the study.

Next, 12 retailers reported sales ranging from $10 to $49 million—including only one mass merchant—while four companies had sales under $10 million. *(See Table 2)*

Store Count

More than half of the respondents, 58%, ran 50 or more store locations, with 17% operating at least 500 stores. Not surprisingly, mass merchants and specialty store companies owned, on average, more locations than department store retailers.

For example, while 58% of the mass merchants and 52% of the specialty chains owned 100 or more units, only 23% of the department store chains operated that many. *(See Table 3)*

Store Location

Seventy-two percent of this year's total group operated at least half of their stores in suburban locations.

Analyzing each retail segment in the study, 57% of the specialty stores reported that at least half of their stores were in suburban locations, compared to 81% of the mass merchants, and 77% of the department store retailers. *(See Table 4)*

Table 1 **The Participants**

	Number of Companies	Number of Stores	Sales Volume ($ Billions)
Mass Merchants	48	17,960	$ 79.8
Department Stores	32	8,315	37.2
Specialty Stores	35	12,368	8.8
	115	38,643	$125.8

Table 2 **Participants' 1986 Sales Volume**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Under $10 Million	2	1	1	4
$10 - $49 Million	1	5	6	12
$50 - $99 Million	5	3	4	12
$100 - $499 Million	15	16	19	50
Over $500 Million	25	7	5	37

Table 3 **Participants' Number of Stores**

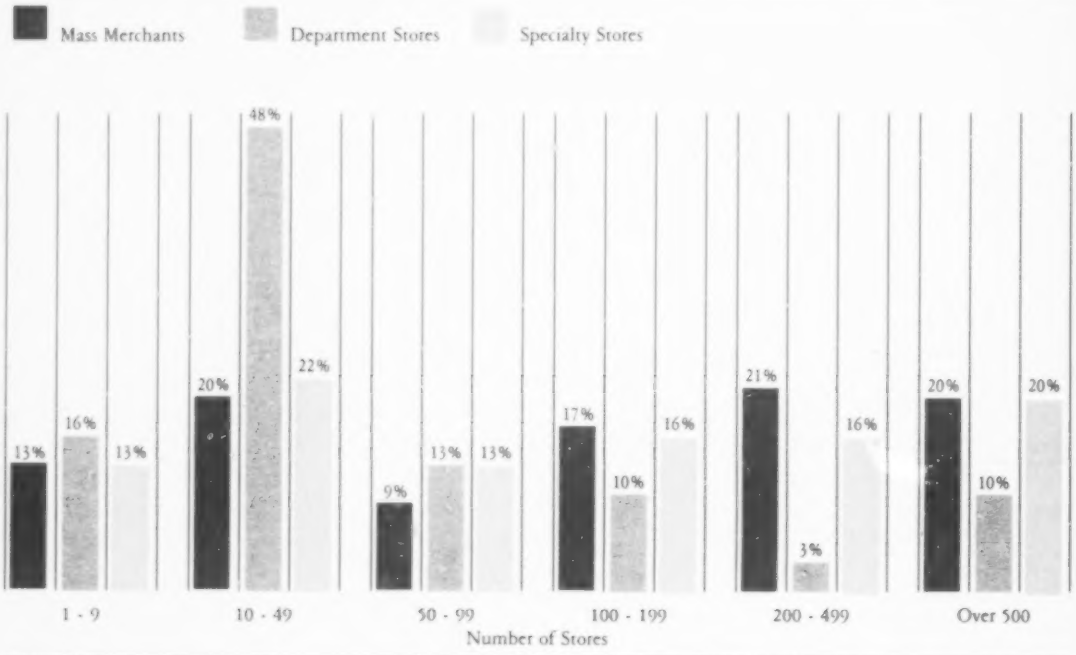


Table 4 **Participants by Store Location**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
100% Urban	6%	13%	10%	10%
1 - 49% Suburban	13	10	33	18
50 - 74% Suburban	27	13	20	21
75 - 99% Suburban	27	47	17	29
100% Suburban	27	17	20	22

II. Shrinkage Results

Dollar Estimates

According to the study, shrinkage, as a percentage of sales, averaged 1.7% in 1986, down from 1.8% the previous year. Despite that 6% improvement, shrinkage still accounted for a staggering loss last year of more than $1.5 billion to the retailers polled.

Mass merchants were the only retail segment to cite an increase in shrinkage levels, from last year's 1.6% of sales to 1.7%. However, department stores and specialty store chains both indicated slight improvements. *(See Table 5)*

To keep these figures in perspective, note that retail systems of reporting shrinkage vary—in terms of including or excluding inventory markdowns and damages. Most retailers account for and control markdowns separately under the retail inventory method. Some, however, do not separate all markdown data, causing inflated shrinkage results.

Shrinkage Control

Overall, only 18% of the retailers polled reported 1986 shrinkage losses totalling less than 1% of sales. Nearly half the group—45%—said shrink cost them between 1% and 1.9% of sales. The remainder of the group said shrink for 1986 was in excess of 2% of sales.

Among the market segments, department stores were hardest hit. Fifty seven percent of the retailers in this group reported shrinkage cost them 2% or more of sales last year; only 28% of the mass merchants and 28% of the specialty store operators reported shrink totalling 2% or more of sales.

Conversely, more specialty store retailers (24%) reported 1986 shrink was less than 1% of sales than either mass merchants (18%) or department stores (13%). *(See Table 6)*

Locating Employee Theft

While retailers have no way to accurately measure the individual causes of shrinkage, they know that employee theft is a factor.

Retailers responding to the survey were asked to identify those areas where they thought they were most vulnerable to employee pilferage.

As this group saw it, most employee theft occurred at the cash register. This view was strongest for the mass merchants responding to the survey: They were of the opinion that nearly half of the employee theft at their chains took place at the point of sale.

The responses for each three market segment followed the same pattern as the entire group polled.

After the point of sale, the group said they were most vulnerable to employee theft on the selling floor (20%), stock areas (13%), warehouse (10%), receiving areas (9%) and trash areas (5%). *(See Table 7)*

Table 5 **Shrinkage Results by Retail Category**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Shrinkage % of 1986 Sales	1.7%	1.9%	1.6%	1.7%
Shrinkage % of 1985 Sales	1.6	2.2	1.7	1.8
Total 1986 Shrinkage ($ Millions)	$948	$460	$114	$1,522

Table 6 Shrinkage as a Percentage of Sales

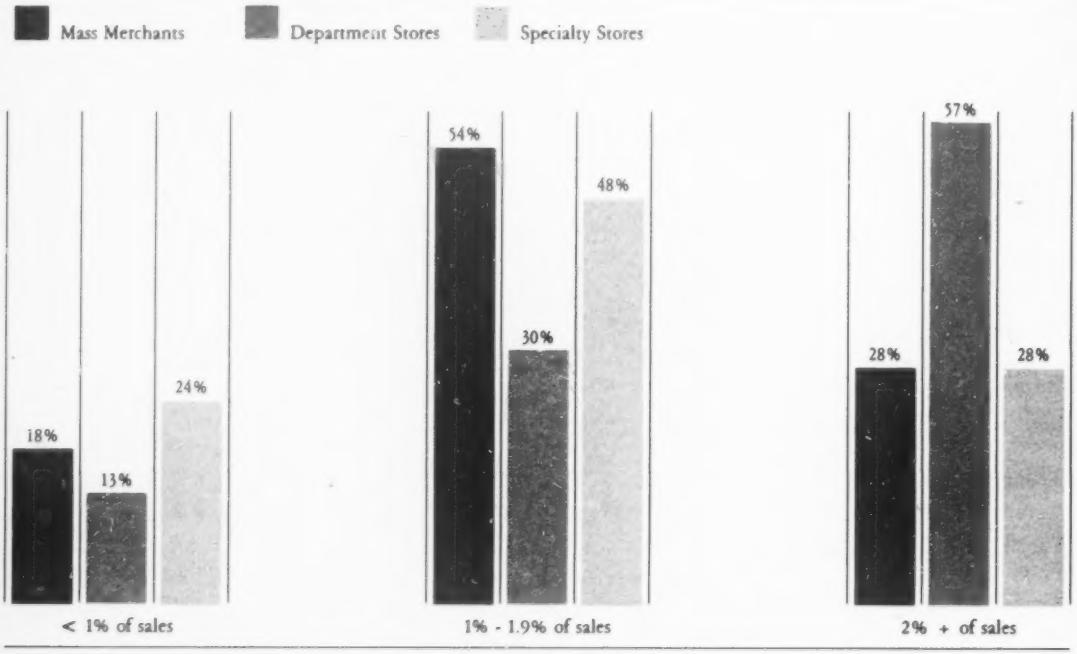


Table 7 Retailers' Opinions on Location of Employee Theft

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Point-of-Sale (Register)	46%	39%	29%	40%
Selling Floor	14	25	24	20
Stock Area	11	12	19	13
Warehouse	11	11	7	10
Receiving	10	9	8	9
Concealed in Trash	6	3	5	5
Other Mentions	2	1	8	3

III. Loss-Prevention Expenditures

Spending Down

In 1986, the retailers surveyed spent less, on average, on loss-prevention programs—as a percentage of sales—than they did in 1985. The study revealed an average decrease from 1985 spending of .43% of sales to .39% of sales in 1986. That translated to a $260 million security budget last year for the responding retailers.

Analyzing the three retail segments, department stores allocated the largest portion of their sales to fighting shrinkage in 1986, with 64% of those surveyed spending more than .5% of sales. In contrast, 25% of the mass merchants and only 17% of the specialty stores spent that high a percentage of their sales. *(See Table 8)*

Interestingly, comparing 1985 loss-prevention expenditures to 1986, specialty store respondents showed the sharpest average decrease in spending as a percentage of sales. The .49% of sales they spent on average in 1985 dropped to .36% in 1986. Mass merchants and department store retailers, however, spent approximately the same amount both years.

Allocation of Expenditures

Payroll expenses accounted for more than half of the expenditures the participating retailers made in efforts to combat shrinkage. Some 30% went to employee guards and detectives, while 28% was spent on other payroll expenses, such as security and loss-prevention directors and office staff.

Comparing the three market segments, responding department store retailers allocated the greatest amount to payroll—72%. That amount was nearly double the 37% specialty store retailers devoted. Mass merchants, meanwhile, spent 62% of their total security budget on these payroll expenditures.

The specialty store retailers, however, allocated a greater percentage of sales than their department store and mass merchandising counterparts to loss-prevention items including electronic article surveillance, physical facilities, incentive programs and training. *(See Table 9)*

Table 8 **Loss-Prevention Expenditures**

% of 1986 Sales	Mass Merchants	Department Stores	Specialty Stores	All Participants
Less than .1%	11%	4%	13%	10%
.1% - .24%	39	12	27	28
.25% - .49%	25	20	43	30
.5% - .99%	23	60	7	27
1% or More	2	4	10	5

Table 9 **Allocation of Loss-Prevention Expenditures**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Employee Guards/Detectives	30%	53%	7%	30%
Payroll for Loss-Prevention Employees*	32	19	30	28
Electronic Article Surveillance (EAS)	3	7	12	7
Outside Services	10	2	9	7
Training	6	7	8	7
External Guards/Detectives	6	4	9	6
Physical Facilities	4	3	8	5
Incentive and Reward Programs	2	2	5	3
Non-EAS Electronic Equipment	3	2	5	3
Other	4	1	7	4

*other than guards/detectives

IV. Loss-Prevention Strategies

Strategy Overview

Retailers from the three different market segments responding to this year's study reported strikingly similar approaches to their companies' overall loss-prevention strategies.

The categories the respondents were asked about follows: prevention and apprehension only; risk management (reducing liability for losses associated with insurance coverage); internal audit (reducing paperwork errors), and a combination of the above categories.

The majority of participating retailers focused their shrinkage efforts only on prevention and apprehension, and emphasized those areas in their training programs.

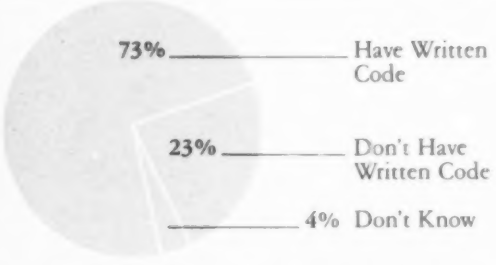
For example, 49% of the mass merchants sought to reduce shrinkage through prevention and apprehension, and 51% said they supported those strategies with training programs.

Similarly, only 9% of the mass merchant group employed risk management strategies in addition to prevention and apprehension, and only 2% emphasized risk management in their training programs. *(See Table 10)*

Table 10 **Loss-Prevention Strategies**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Prevention and Apprehension only	49%	48%	56%	51%
Prevention and Apprehension *and*				
Risk Management and Internal Audit	40	45	47	44
Internal Audit	28	19	25	25
Risk Management	9	3	6	6
Other Methods	4	6	3	5

Table 11 **Percentage of Companies with Written Code of Ethics**



Employee Programs

Overall, almost all of the retailers in the study—93%—have some kind of employee training program to help reduce shrinkage.

In fact, of the mass merchandisers polled, 96% reported having training programs. Specialty and department stores followed with 91% and 90%, respectively.

Ethics Codes

However, when it came to actually formulating a written code of ethics, fewer retailers responded in the affirmative. On the whole, 73% of the participants had a written code of ethics; 23% did not, and 4% did not know.

The retail segment that had been most diligent in this area, according to the report, was the mass merchants—with 81% having such a code in place. *(See Table 11)*

Employee Awareness

Awareness levels of these written codes of ethics, in the companies that have them, were highest at the corporate and store or department manager levels. However, only 37% of those with ethics codes said store sales associates were aware of them. *(See Table 12)*

Not surprisingly, 59% of the smaller companies, those with sales under $100 million, thought sales associate-level employees were likely to know about their written ethics code. In contrast, only 27% of the participants with $500 million or more in annual sales said their sales associates were aware of these codes.

Also, 46% of the low-shrinkage retailers—with inventory losses accounting for less than 1% of annual sales--reported high awareness levels for sales associates. However, only 25% of the high-shrinkage companies, with shrink costing 2% of sales or more, said sales associates were aware of ethics codes. *(See Table 13)*

Table 12 **Organizational Awareness of Ethics Code**

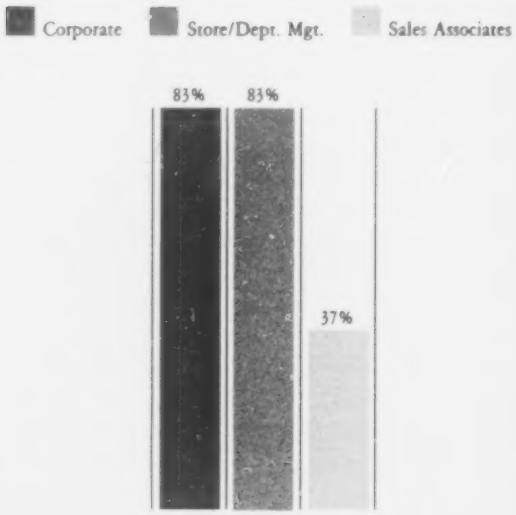
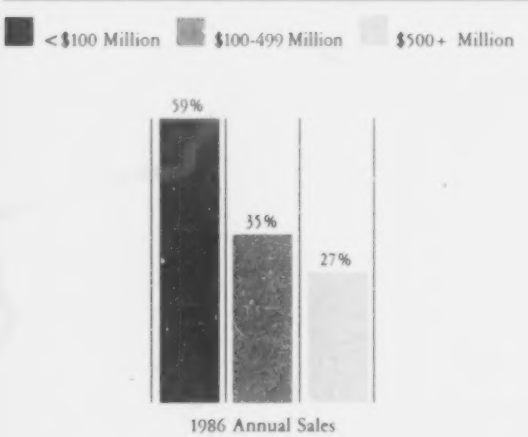
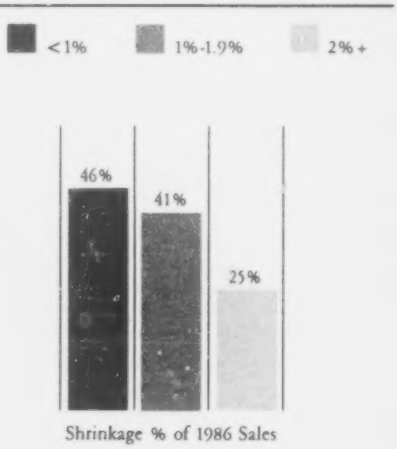


Table 13 **Sales Associate Awareness of Ethics Code**





V. Incentive Programs

Reaping the Benefits

Retailers who have created shrinkage incentive programs, including monetary rewards or recognition programs, generally found their efforts paid off, the survey revealed.

While 67% of the retailers in the study had used these incentives *(See Table 14)*, 87% of that group—or nine out of ten—rated their programs as effective. *(See Table 15)*

Involvement with incentive programs was comparable among the various retail segments in the survey: 63% of the mass merchants used them; 71% of the department stores, and 69% of the specialty stores.

Likewise, retailers from the three retail segments viewed their programs' effectiveness in a similar way: 85% of the mass merchandisers said their programs had an impact on shrinkage; 91% of the department store retailers agreed, as did 86% of the specialty store operators.

Eligibility

According to the retailers who instituted loss-prevention incentive programs, sales associates were the most likely to be eligible.

In fact, 41% of the respondents aimed their incentive programs at non-management employees—except security personnel. Conversely, these programs were much less likely to be geared for management: 23% of the specialty stores, 3% of the mass merchants and none of the department stores polled provided incentive programs for store management. *(See Table 16)*

Table 14 **Percentage of Companies with Shrinkage Incentive Programs**

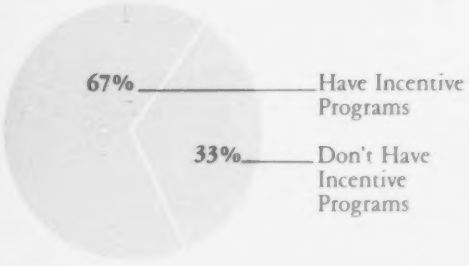


Table 15 **Percentage of Companies Rating Their Programs as Effective**

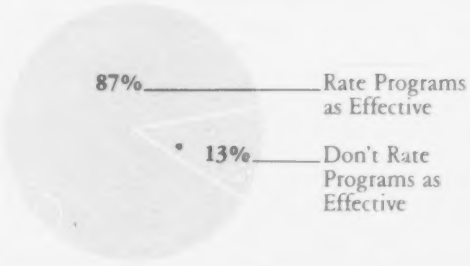


Table 16 **Employee Eligibility in Shrinkage Reduction Incentive Program**

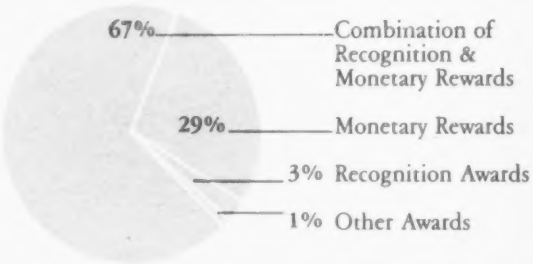
	Mass Merchants	Department Stores	Specialty Stores	All Participants
Only Non-Management Employees (Except Security Personnel)	39%	54%	32%	41%
All Store-Level Employees	34	14	36	29
All Store-Level Employees (Except Security Personnel)	17	32	9	19
Store Management	3	—	23	8
Other Mentions	7	—	—	3

Types of Incentive Programs

The most popular kind of shrinkage reduction incentive program, according to the study, was a combination of monetary reward and recognition award—used by 67% of the retailers with programs. Monetary rewards alone (29%), and recognition awards (3%) ranked second and third respectively. *(See Table 17)*

The study also pointed out that retailers who had incentive programs indicated the most popular format of employee recognition was a write-up in the company newsletter (75%). Following that was a citation program (55%), a posting of names on a bulletin board (32%), and lastly, lunch with a management official (15%).

Table 17 **Types of Shrinkage Reduction Incentive Programs**



VI. Risk Management

Retail Programs

This year the loss-prevention survey takes its first look at risk management—those efforts designed to reduce liability for losses associated with insurance claims.

Designated Personnel

Approximately 74% of the companies in the study reported having personnel specifically designated to deal with risk management issues.

Interestingly, mass merchants lead the three participating retail segments in this area, with 83% responding in the affirmative, compared to 71% of the department stores and 66% of the specialty store chains.

Of the retailers who dedicated personnel to risk management, approximately 54% of these employees were placed specifically in loss-prevention departments, 47% worked in the finance area and 17% in internal audit.

In addition, some of the retailers polled mentioned other functional areas for placement of risk management personnel—such as human resources, insurance departments, legal departments, accounting and real estate.

Risk Management Strategies

While some retailers did not have dedicated risk management personnel, 87% of the survey population did use risk management strategies.

Among the strategies this group used are the following: 82% conducted periodic audits of the company's risk status and implemented changes as necessary; 78% had risk management personnel meet with insurance representatives to identify cost-saving measures; 70% studied past losses and implemented changes accordingly, and 64% provided risk management training programs.

Analyzing the study's three market sectors, specialty store retailers were more heavily involved with risk management audits (91%) and in studying past losses (87%) than either mass merchants or department stores. *(See Table 18)*

Table 18 **Strategies to Improve Risk Management**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Risk Management Audits	77%	83%	91%	82%
Personnel Meet With Insurance Company	77	78	78	78
Study Past Losses	60	70	87	70
Risk Management Training	65	65	61	64

VII. Internal Audit

Another new section incorporated in this year's loss-prevention report concerned internal audit.

Audit Personnel

As a group, 84% of the participating retailers noted they have audit personnel dedicated to security and loss prevention. In all three retail segments, these individuals were evenly divided by location—half were assigned within the security and loss-prevention departments, and half outside.

According to the study, these retail audit staffs primarily focused on errors relating to merchandise receiving and accounts payable. This finding was consistent among all three retail groups.

When asked how often audit personnel were required to review operations related to loss prevention, 60% of the retailers with audit personnel indicated this function was performed continuously. Thirty-one percent responded that it was done as needed.

Rating Usefulness

On a rating scale of one to five—with five described as "extremely useful"—61% of the companies who conducted internal audit reviews graded their programs with high marks, a four or a five. Of that group, 37% gave a five to their programs, and 24% a four. Only 7% of the retailers surveyed rated them as "not useful at all." The remaining 32% gave a mark of three.

By retail segment, 69% of the mass merchants and 67% of the department store retailers in the survey found their audit programs very effective. However, specialty store operators seemed less satisfied, with only 42% giving their programs high grades. *(See Table 19)*

In the low-shrinkage group—1% of sales or less—57% of the retailers with internal audit reviews rated their efforts "extremely useful."

Table 19 **Usefulness of Audit Staff Reviews in Preventing Losses**

		Mass Merchants	Department Stores	Specialty Stores	All Participants
Extremely Useful	-5	41%	38%	29%	37%
	-4	28	29	13	24
Moderately Useful	-3	21	29	54	32
	-2	10	5	4	7
Not At All Useful	-1	—	—	—	—

VIII. Food Retailers

The Participants

Ten food retailers, operating at more than 1,800 locations, participated in the 1986 study. Their aggregate sales volume for the year was approximately $22 billion, compared to $20.5 billion for the previous year.

Half of the respondents reported 1986 sales of $500 million or more, with none reporting sales under $50 million.

Shrinkage Results and Expenditures

Participants reported average inventory shrinkage as .60% of sales, or a total of $61 million for 1986. Shrinkage as a percentage of sales was also .60% for 1985. *(See Table 20)*

Food retailers in the study reported spending an average .12% of sales on loss prevention for both 1986 and 1985. *(See Table 21)*

Fifty percent of the responding food retailers spent less than .1% of sales on programs to alleviate shrinkage, while 30% spent from .1% to .24% of sales, and 20% spent from .25% to .49%.

Allocating Funds

Half of these companies' security expenses went toward personnel. On average, 13% was spent on employee guards, 21% on hired guards and 26% on payroll other than guards. Employees other than guards included the loss-prevention director-manager, loss-prevention office staff, loss-prevention audit and training staff and regional and store-level loss-prevention managers.

As expected, very few of the food retailers allocated a part of their security budget to electronic article surveillance (EAS), although other kinds of electronic equipment were noted. These include point-of-sale systems, visible TV cameras and pin-hole video cameras.

Additionally, 13% of the group allocated money for training and incentive programs, and 12% for physical facilities. *(See Table 22)*

Table 20 **Food Retailers' Shrinkage Results**	
1986 Shrinkage (% of sales)	.60
1985 Shrinkage	.60
Total Shrinkage ($ millions)	$61.0

Table 21 **Food Retailers' Loss-Prevention Expenditures**	
1986 Expenditures (% of sales)	.12
1985 Expenditures	.12
Total Amount ($ millions)	$15.8

Table 22 **Food Retailers' Loss-Prevention Expenditures**	
Payroll for Loss-Prevention Employees Other than Guards/Detectives	26%
External Guards/Detectives	21
Employee Guards/Detectives	13
Physical Facilities	12
Training	12
Other Electronic Equipment	8
Outside Services	6
Incentive and Reward Programs	1
Electronic Article Surveillance (EAS)	1
Other	—

Loss-Prevention Strategies

When asked to categorize their companies' overall strategy toward loss prevention, 40% of the food retailers focused solely on prevention and apprehension. Another 40% named a combination of prevention and apprehension, risk management and internal audit. Thirty percent noted prevention and apprehension and risk management, and 10% mentioned prevention and apprehension and internal audits.

Employee Programs

As part of the loss-prevention effort, many food retailers have established ethics codes to serve as a model for employee behavior.

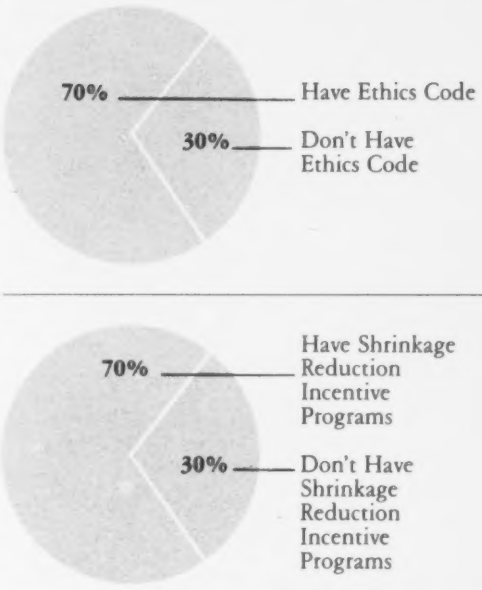
Seventy percent of the survey sample had written ethics codes. Nonmanagement store personnel (29%) were the least likely to be aware of the code, followed by corporate personnel (71%) and store/department management (86%).

Eighty percent of the food retailers participating in the 1986 study reported having training programs. The approaches toward these training efforts paralleled their overall strategies toward loss prevention.

Of the group responding in the affirmative about training, 38% focused their programs on prevention and apprehension.

Similarly, 38% described their strategies as dealing primarily with a combination of prevention and apprehension, risk management and internal audit; 25% focused training on prevention and apprehension and risk management, and 25% on prevention and apprehension and internal audits.

Table 23 **Food Retailers' Employee Programs**



Only 30% of the food retailers polled had shrinkage reduction incentive programs. Of those who have programs, all said they have a positive impact on shrinkage. In these programs, employees are rewarded/recognized primarily for identifying dishonest employees and for suggesting ways to reduce shrinkage. *(See Table 23)*

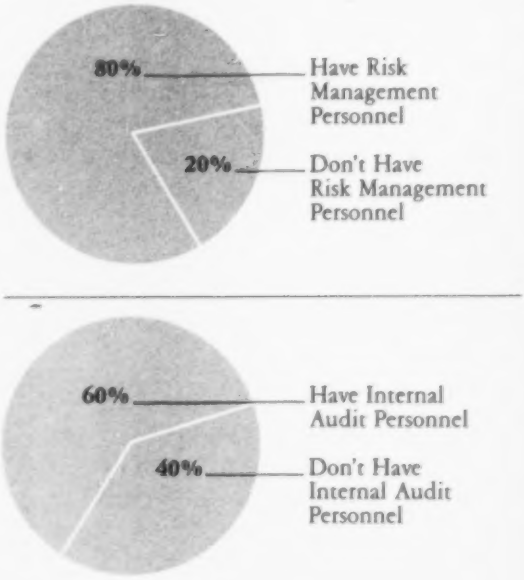
Management Programs

Eighty percent of the food stores polled have personnel dedicated to risk management issues. Of this group, 75% are in the loss-prevention department. The key areas they focus on are: studying past losses (89%), meeting with insurance representatives (78%), risk management and training (78%) and audits (67%). *(See Table 24)*

Among the food retailers surveyed, 60% have internal audit personnel dedicated to security and loss prevention. They focus on merchandise receiving (86%), accounts payable errors (71%), and store operations (43%).

The vast majority of the responding companies—86%— believe their audit personnel are an effective weapon in fighting shrinkage.

Table 24 **Food Retailers' Management Programs**



Executive Interviews

Kay Jewelers Stops the Clock on Three-Minute Burglaries

Kay Jewelers, the $350-million jewelry chain headquartered in Alexandria, Va., operates more than 430 stores in 33 states, principally in major suburban locations. The stores operate under the Kay; Black, Starr & Frost, Ltd.; J.B. Robinson, and Marcus & Co. nameplates.

Like most jewelry store operators in the nation, Kay has suffered its share of losses at the hands of a new class of burglar: the smash and grab artist, perpetrator of the so-called "three-minute burglary."

Advanced technology has produced a new generation of store safes that can withstand most burglary attempts; the "professional" safecracker has become mostly a figure of legend.

In his place, a new class of criminal has emerged: a crowbar-wielding "amateur" who—indifferent to store alarms—smashes through display windows and showcases, grabs the merchandise and flees the scene of the crime within (three) minutes of arriving. On average, it takes 15 minutes for most police and internal security forces to respond; the "three-minute burglar" is long gone by the time they arrive.

While many retailers have been the targets of this kind of crime, jewelry stores—even those in enclosed mall locations—have been particularly vulnerable.

Kay Jewelers' management began to look more closely at the problem in 1984. Their solution is helping to revolutionize retail loss prevention—and having a major impact on Kay's bottom line.

We recently talked with Paul Talbott, Director of Security, about Kay's "Three-minute Burglary Program."

AY: How big a problem are the so-called "three-minute burglaries"?

Talbott: They represent the majority of our losses, and they are a big problem for the entire retail industry.

But alarms and safes, the industry's traditional weapons against burglary, are no longer a workable solution. While technology has created safes that are almost impossible to break into, they are not a deterrent to the kind of crime being committed today: a three-minute assault on exposed merchandise.

There are more than 350 Kay Jewelers outlets. The average store stocks about $600,000 worth of merchandise at retail. However, a large portion of that inventory (primarily watches and gold chains) remains in the showcases at night; only big ticket items go into the safe.

There are two reasons for this: At 1,000 to 1,200 sq. ft., our average store simply has no room for a safe large enough to hold its entire inventory. Also, putting everything away, every night, is a very labor-intensive process.

So we're very vulnerable. The average burglary represents an $80,000 loss to us.

AY: What happened in 1984 to change your approach to the problem?

Talbott: In 1984, we instituted a formal store loss notification process. Before that time, we didn't require store managers to report burglaries—or attempted burglaries—to headquarters. Until then, we defined burglary as a non-preventable loss and concentrated our loss-prevention efforts elsewhere.

By 1984, our operating systems had become sophisticated enough for us to start quantifying our known losses—those incurred either through theft or mysterious disappearance.

At the same time, we decided burglary losses were no longer acceptable. Yet when we went out in the market looking for solutions, there was little to choose from.

AY: What did you find?

Talbott: We found equipment to keep the professionals out, but little to deter the amateurs who smash their way in, fill up a garbage bag with merchandise and leave.

Beyond safes and alarms, our sole other choice was to replace our hollow bar aluminum gates with solid steel gates.

Again, you have to understand the physical layout of our stores. Primarily in enclosed mall locations, they are open to customer traffic on as many as three sides.

To replace the existing gates would take a week, and during that time we would have to hire guards to watch the store. In addition, the replacements would cost between $10,000 and $20,000—per gate!

We have started using steel gates in new locations we feel are vulnerable, but the cost was prohibitive for a chainwide retro-fit program.

AY: What was your solution?

Talbott: We devised our own protective showcase cover. One that was light enough for a female sales associate to handle, yet small enough to be stored easily in a small store.

We created a 12 to 15 lb. showcase cover made of five, piano-hinged Lexan (bullet resistant plastic) panels. To install, a clerk positions the cover on top of the showcase then folds it down over the sides. The panels, which are fitted with steel lips, are then padlocked together at each corner. Tests have shown they can withstand a 15-minute assault.

It costs us approximately $2,000 to cover seven showcases in a store, and it takes a clerk only a few minutes to install them.

AY: How many stores have been fitted with the case covers since the program began?

Talbott: We began testing the protective covers in four stores at the end of 1986. Today, we have them in 34 units. Next year we'll add them to another 20 to 30 stores.

But not every store will get them.

As part of our store loss notification process, we have been able to create a profile on our market-by-market vulnerability as well as a specific profile of every unit in the chain.

We know the number of actual and attempted burglaries, as well as year-to-date dollar losses by store and division. We also analyze the crime to see if it could have been prevented.

The case covers may never be installed in locations that never experienced a burglary, but they are being added in those locations where we are most vulnerable.

AY: How would you characterize the locations where you will install the case covers?

Talbott: They are major metro market stores: urban, inner city stores; places where we have had unacceptable losses.

AY: What kind of results have you had so far?

Talbott: For the Kay Jewelers division as a whole, losses due to burglaries are down 59% year-to-date.

Our first test was in four stores near our headquarters. In one mall location, Landmark, Va., there was a burglary attempt almost every week. We lost a lot of merchandise there over a five to six month period last year.

However, since we installed the case covers, the burglaries have stopped. Unfortunately, the thieves just go down the mall to the next jewelry location and hit them.

AY: Are there any other programs in place which support these efforts?

Talbott: Yes. Overall we've worked to heighten company awareness of the problem at every level.

For example, a summary of the store loss reports is published every two weeks for senior management. Among the things we monitor them for are the percent of preventible losses versus non-preventible losses by store and division compared to last year.

In addition, we have stepped up our store level training efforts.

Eighty-five percent of our store managers now have gone through a training program on loss prevention and security management.

Next year, we plan to put our full time and part time workers through a similar training program.

Jamesway Uses Training and Audits to Control Shrink

Jamesway, a $700-million regional discounter with 106 stores in six Middle Atlantic States, recently celebrated its 26th anniversary.

Shrinkage control is a sophisticated and integral part of chain operations. However, today the emphasis is on loss prevention through training, finetuning systems controls, audits and investigation—following the paperwork trail. According to James Varhol, Vice President, Loss Prevention, "our goal is to prevent problems before they occur."

The approach seems to be paying off. In 1986, shrink for the New Jersey-based retailer accounted for less than 1.5% of sales—less than the average reported by this year's survey participants.

One of the main responsibilities of Varhol's department is auditing stores for operational compliance to Jamesway policies and procedures.

AY: How big is your department?

Varhol: During the first quarter of 1988, we will be regionalizing the loss-prevention division and adding two new positions: eastern and western regional loss-prevention manager. The loss-prevention district managers will report to them; each LPDM is responsible for about 10 stores.

We also have a loss-prevention manager and two or three detectives—depending on sales volume and shrink—in to each store.

In addition, I have a special investigator who manages our corporate pre-screening process and undercover programs.

AY: You said you try to prevent problems before they occur. How do your audit programs support that strategy?

Varhol: We are constantly auditing the stores for operational compliance with stated policies. There are 15 areas we target, including the cash office, service desk, front line registers, layaway department, jewelry and photo department and the receiving area.

We also audit a store's energy management systems to make sure they comply with our heating, lighting and weatherstripping guidelines. We also do a physical inventory of the stores to make sure sprinklers are operable, aerosols safely stored, and so on.

Ideally, an LPDM should visit every store in his district once every two weeks. Target stores (high shrink stores) are audited more often. We have LPDM store audit sheets for them to complete on every store visit.

AY: Can you describe how an audit would work, for example, in the cash room?

Varhol: There are many steps involved in an audit. One is that the store loss-prevention manager counts the house safe once a week, on a surprise basis.

On a daily basis, that manager also reviews bank validations, petty cash records, coupons, refund slips, and vending machine collection records and deposits; "key recs" bad checks, and makes sure cash register transfers are properly handled and documented. The loss-prevention manager also keeps control logs on various office equipment like ticket guns.

In addition, he investigates all cash register shortages and overages. If a cash shortage is over $5, he talks to the cashier involved. To further heighten awareness, every day, in every store, we post a list of the store's cashier shortages and overage problems in the employee lounge.

The loss-prevention manager also reviews weekly price-violation reports, and store inventory and markdown reports. He checks to make certain that inventories and markdowns are in line with individual store guidelines and chain averages.

We now have electronic price look up in 38 hardline departments, and we'll soon be adding softlines to the system. So we know if someone is keying-in the wrong retail prices.

In fact, these price-violation reports are one of the best tools we've developed to measure employee honesty.

We recently had a situation with a dishonest cashier—which we calculated was an $8,000 drain on the company—and we were able to use the price-violation reports which detail every transaction by item number, quantity and price to develop a case and prove it in court.

AY: How often do situations like this get uncovered?

Varhol: Unfortunately, they're becoming more common, and people are becoming more creative. Moreover, an increasing number of the employee crimes we're seeing are drug-related—from people supporting cocaine habits—so we tend to suffer from larger dollar losses.

For example, in the first six months of this year, we apprehended 139 employees and 3,700 shoplifters. Yet the losses we suffered from both groups were practically the same in dollar value.

The employee thefts—just what they told us they took—cost us almost $74,000. The average case was $532.37.

At the same time, we recovered about the same amount, $78,000, from the shoplifters we apprehended. But the average case for this group was only $21.08.

AY: How are you dealing with the problem?

Varhol: We try to combat the problem with training and through various incentives.

We're also trying to heighten company awareness through our company newspaper and at store meetings. For example, we ask our LPDM's to hold informal shrinkage control meetings on Friday afternoons with various store staffs. We tell the managers to buy everyone a cup of coffee and discuss the problem. We want to get people involved, to let them know they can make a difference.

In addition, we have set-up an 800-number "Tip Line" and instituted a mail-in "Silent Witness" program to give people a way to anonymously report acts of theft in our stores.

The largest portion of our loss-prevention budget goes toward the people side of the equation, through payroll, store detectives and training.

In 1988, we will increase our attention to training, and work to increase awareness in every level of the organization.

AY: What role then do electronic systems play in your loss-prevention strategies?

Varhol: By using electronic systems, we can now monitor cashier performance: through price violation reports and reports that show "zero sales" in a price-look-up department. These tell us if cashiers are bypassing or not ringing merchandise properly on the front lines.

From front-end productivity reports, we can zone-in on cashiers who tend to make more mistakes by voids, etc. and to follow through on consistent, accurate ringing.

On the other hand, these same front-end productivity reports also provide us with the individual statistics to show us which cashiers are good performers. These cashiers are rewarded through our "Cashier of the Month" program.

Converting to price look up will also give us a more accurate markdown capture. Beyond that, through our store audits, we are instituting and monitoring policies that we hope will give us tighter control on everything from making sure store-initiated markdowns are properly recorded to matching purchase orders against invoices—so there are *no surprises* at year end.

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